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Arizona Corporation Commission

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AZ CORP COMMISSION  
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## BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF THE )  
APPLICATION OF PINEVIEW )  
WATER COMPANY, INC. FOR AN )  
INCREASE IN ITS WATER RATES )  
FOR CUSTOMERS WITHIN NAVAJO )  
COUNTY, ARIZONA. )

DOCKET NO. W-01676A-04-0500

IN THE MATTER OF THE )  
APPLICATION OF PINEVIEW )  
WATER COMPANY, INC., FOR )  
AUTHORITY TO ISSUE )  
PROMISSORY NOTE(S) AND )  
OTHER EVIDENCES OF )  
INDEBTEDNESS PAYABLE AT )  
PERIODS OF MORE THAN TWELVE )  
MONTHS AFTER THE DATE OF )  
ISSUANCE )

DOCKET NO. W-01676A-04-0463

**APPLICANT'S CLOSING  
BRIEF**

Pineview Water Company, Inc. (hereinafter "Pineview" or the "Company"), by and  
through the undersigned counsel, hereby submits its Closing Brief in support of said  
Applications states as follows:

**INTRODUCTION**

The Administrative Law Judge has requested written Briefs on the remaining issues in  
this proceeding, and has acknowledged the Company's concern with the time and cost of that  
requirement by indicating that extensive Briefs were not necessary. The Company will certainly  
comply with that requirement by summarizing only the issues critical to the Company.

1 First, we would like to address the tone of this proceeding. The Company is aware of the  
2 Commission's obligation to protect the ratepayers in the rate proceeding. However, we submit  
3 that the Arizona Constitution and Statutes contemplate a balancing of the ratepayers' interests  
4 with the Company's interests, to assure a financially viable Company whose expenses are fully  
5 recovered, provide the opportunity to earn a fair return on the Company's investment, and permit  
6 the Company to finance its capital needs. The Company acknowledges its bias, but it is the  
7 Company's opinion that the Commission Staff has been overly zealous in its attempts to protect  
8 the customers by unreasonably disallowing expenses that are supported by a preponderance of  
9 the evidence. Staff's unwarranted assault on the Company's rate base and test year operating  
10 expenses reduces the requested revenue increase of \$126,452 (24.19%) to a meager \$15,495  
11 (2.96%). Further, the Staff applied a "return on equity" surrogate for the rate of return  
12 determination. That methodology is appropriate only for much larger and more sophisticated  
13 companies than Pineview. We trust the Judge and Commissioners will balance those interests.

14 Pineview is a company that is, and was during the Test Year, in transition from literally a  
15 "mom and pop" company to a professionally managed company. The Company's management,  
16 operations, accounting system, and plant have improved dramatically during that period. The  
17 Company acknowledges that the Company's last rate case decision (Decision No. 58834, Exhibit  
18 S-3) required the Company to do certain things. Most of those items had to do with water  
19 quality and pipe replacement and have long since been completed.

## 20 **COMMINGLING**

21 The only item in that Decision with any impact on this Application had to do with the  
22 segregation of capital and operating expenses between other related entities. The 1996 Decision  
23 discussed the "Transactions with Affiliates" in the DISCUSSION portion of that Decision, but  
24 did not include any FINDINGS OF FACTS, cite any CONCLUSIONS OF LAW, or contain any

1 paragraph in the ORDER section of the Decision regarding those matters. The Decision merely  
2 adopted Staff's proposed adjustments on the cited matters.

3 Staff stated that commingling of capital expenses and operating expenses, "...continues  
4 today to the detriment of ratepayers" (Exhibit S-14, Page 6). Upon examination, Ms. Zestrijan  
5 cited the acquisition of the new backhoe by Mr. Sutter and payment of certain Mercon Inc.  
6 invoices as evidence. (Transcript at Page 433 hereinafter cited as TR 433). She also testified that  
7 the fact that Henry and Kathrine Sutter owned a farm in New Mexico and used earnings from  
8 Pineview Water Company to travel to and from the farm was commingling. Although it is  
9 irrelevant as to how the Sutter's spend their earnings, Mr. McDonald, after consulting with the  
10 Sutter's during a break, testified that the farm was sold in 1998, five full years before the Test  
11 Year. (TR 561)

12 Company's witness explained why the equipment acquisitions were made in the manner  
13 made. The pickups and backhoe are essential pieces of equipment for utility company. The  
14 Company could not buy or lease them on their own merit due to the Company's inadequate  
15 earnings. Therefore, Mr. Sutter Leased/Purchased that equipment and assigned it to the  
16 Company. (TR 87) The technique may not have been in classic NARUC form, but the intent  
17 was clear. It was not a commingling. It was Yankee ingenuity used to obtain the needed  
18 equipment for the benefit of the Company and its customers. Those assets have been used  
19 exclusively by the Company from the date of acquisition. (TR 89)

20 Likewise, the Mercon invoices cited and disallowed by Staff were clearly Company  
21 expenses. Mr. McDonald explained how, in a small town when an owner is known to have many  
22 different businesses, merchants sometimes mistakenly invoiced the wrong company. Mr.  
23 McDonald testified that those Mercon invoices were, in fact, Pineview expenses. (TR 192-194)  
24 He further testified that since his arrival at the Company all invoices with incorrect company

1 references have been returned to the vendor for rebilling prior to payment. The cited infractions  
2 were not commingling, but incorrect invoicing by vendors.

### 3           **ACCOUNTING**

4           As to Staff's alleged accounting improprieties, the 1996 Decision did not even cite  
5 specific accounting errors or address any NARUC issues. The Company is fully aware that it  
6 must follow the NARUC Chart of Accounts, but for the Staff to conclude in this case that the  
7 Company did not follow NARUC, and even suggest gross accounting violations, is totally  
8 inappropriate and not supported by the record. The Company's consultant, Dan Neidlinger a  
9 CPA, and the Company's CPA firm, Ullmann & Co., are of the opinion that the Company  
10 follows NARUC procedures (TR 41, 97, 230)(Exhibit A-14). Indeed, the two irregularities cited  
11 by Staff included Mr. Neidlinger's "consolidating" accounts in his supporting schedules (Exhibit  
12 A-1, Exhibit A), not the books and records of the Company (Please note Ms. Zestrija's  
13 consolidation of certain expenses in her Exhibit S-16, for example), and the Company's failure to  
14 record the retirement of the old backhoe. (TR 216) (See below) These are hardly gross  
15 noncompliance items with NARUC, the first having nothing to do with NARUC requirements,  
16 and the second an accounting oversight, or at worst a bookkeeping error, that should have been  
17 made in 1998. Those items were certainly appropriate for discussion by Staff, but the intensity  
18 of their arguments suggests there was a conspiracy or intent to defraud the Commission or the  
19 customers. We will demonstrate these items are fully explainable, and in the scope of things,  
20 quite minor.

21           This Company is on the verge of becoming a model Company. Its operations have been  
22 well-organized and established, and its proposed capital additions are sound, well-documented,  
23 and needed to serve the existing customers and posture the Company for future growth for the  
24 benefit of all customers.

1 We are hopeful that the Judge and Commissioners will recognize the incredible progress  
2 made by this Company and the improvements made to the system since the 1996 rate case, and  
3 will acknowledge this by allowing the reasonably proven expenses, revenue, and financing  
4 requirements in this Application and the full funding of the needed plant additions.

## 5 **RATE BASE ISSUES**

6 Please recall that the Company's request in this proceeding is based upon its ability to  
7 finance the new plant, i.e. the coverage ratios, not the Rate Base/Rate of Return ratemaking that  
8 the Company acknowledges the Commission is obligated to find. (See rate of Return below)  
9 Therefore, although it is important to resolve Rate Base issues properly, from the Company's  
10 perspective, it is not so much for this case as for future proceedings.

11 The Rate Base issues in this proceeding are few, although about \$150,000 is at issue. A  
12 major adjustment proposed by Staff at Exhibit S-14, Schedule ENZ-10, Meter Advances, has  
13 been conceded by the Staff. (TR 18) The largest adjustment by Staff is the disallowance of the  
14 \$50,750 well site addition proposed by the Company. (Exhibit S-14, Schedule ENZ-5). This  
15 parcel has been acquired and paid for by the Company and is included on the Company's books  
16 and records. Staff concedes the need for the additional wells on the system. (TR 371) The  
17 record is clear that these wells are needed and are at the appropriate location. (TR 171-173)  
18 Staff visited the sites during the audit and witnessed the site preparation work and the well casing  
19 pipe on-site. This parcel is essential to the engineering plans for the storage and gravity pressure  
20 system for the entire system. (See Financing Requirements below). Although the site does not  
21 have all facilities installed at this time, it is used and useful in the Company's providing service  
22 to its existing customers. It should be allowed in the rate base at this time.

23 The second rate base issue pertains to the treatment of certain capital equipment. Staff  
24 has elected to remove the lease of two pickup trucks that the Company had leased for \$14,400

1 from Rent, Expense Account Number 641, and to reclassify the lease expense by capitalizing the  
2 acquisition cost of the vehicles of \$48,805 as plant in service in Transportation Equipment,  
3 Capital Account Number 345. Although the Company believes it's original booking of those  
4 items to be correct, it does not object to the Staff treatment for those pickups. However, the  
5 amount that should be capitalized is the total cost of \$55,436 as evidenced by summing the  
6 purchase prices of the two pickups as shown on Exhibits A-10 and A-12. (TR 197-198)

7 Although it was an identical transaction by the Company for the acquisition of the 1998  
8 Case Model 580 SL backhoe (the "new backhoe"), Staff has steadfastly refused to treat the  
9 backhoe similarly. (TR 88) The Company booked the expense associated with this replacement  
10 backhoe in two ways: a lease payments that was included in Rent, Expense Account Number  
11 641, of \$18,000, and equipment repair costs booked in Repairs and Maintenance, Expense  
12 Account Number 345, in the amount of \$5,578.

13 Staff is proposing to totally disallow the lease expense for the new backhoe and has  
14 refused to capitalize it, and has additionally removed the repair expenses. The Company  
15 believes expensing of the lease was appropriate, but would agree that capitalizing the asset as of  
16 the in-service date, with all of the appropriate depreciation adjustments and the repair expense  
17 would be acceptable.

18 The record clearly establishes that on or about May 2, 2000, the Company acquired the  
19 new backhoe pursuant to a Vehicle Lease To Purchase Agreement (Exhibit A-9). The cost of  
20 that equipment was \$89,526.90 (Exhibit A-18), and was subsequently formalized with the lease  
21 to buy agreement with \$1,000 per month payments concluding in April 2004. (Exhibit A-9).  
22 Staff, in its vigor to disputed any evidence of the Company, argues that 1) the Lease Document  
23 (Exhibit A-9) and the Purchase Invoice (Exhibit A-18) are not for the same backhoe, and 2) the  
24 correct value for the backhoe is an E-Bay average cost (Exhibit S-27), not the invoice cost. It is

1 almost embarrassing that the Staff would advance these arguments. First, the Serial Number on  
2 the documents is identical, but for the obvious typographical omission of one cipher in the  
3 number (JJG067017 versus JJG0267017). The Company produced photos showing the actual  
4 Serial Number (Exhibit A-24). Secondly, the E-Bay estimate is obviously of no probative value  
5 as the Staff could not to even confirm the backhoes had the same optional equipment, and the  
6 prices were undelivered from remote Provinces of Canada. (TR 555) Even suggesting use of  
7 Internet price estimates is shortsighted by Staff. One must ask if the Internet showed a value  
8 higher than the invoice number, would the Staff accept that? We think not, nor should they. The  
9 best evidence for the value of the backhoe is the in-service date on the invoice shown as  
10 \$89,526.90.

11 The accounting oversight, or error, which the Company acknowledges, is that the 1996  
12 backhoe was not properly retired from the books. This oversight does not justify disallowing all  
13 new backhoe costs and expenses. It merely requires the removal of the old backhoe and related  
14 Accumulated Depreciation expense from the Company's books and records. Staff has  
15 erroneously concluded that because the 1996 Decision authorized one backhoe for ratemaking in  
16 1995, that only one backhoe, and that specific backhoe, is now permissible. They are mistaken  
17 on both counts. Staff reclassified the entire balance of the Plant Structure and Improvements  
18 Account to the Tools and Work Equipment Account in the amount of \$38,542 (Exhibit S-14,  
19 Schedule ENZ-5). That included in the 1996 backhoe valued at \$37,926. That backhoe, and the  
20 associated Accumulated Depreciation, should be removed from the Company's books. The total  
21 Accumulated Depreciation for 1996 through 2002 was \$15,018 ( $\$37,926 \times 4.95\% \times 8 \text{ years} =$   
22  $\$15,018$ ) (See Exhibit S-20)(TR 246-252)

1 The appropriate treatment of the backhoes is set forth in Attachment 1 hereto and  
2 provides the Commission with the necessary alternative Rate Base computations, one if the  
3 Commission elects to expense the new backhoe, and the second if the backhoe is capitalized.

4 The final rate base item is the Staff's disallowance of the leasehold improvements of  
5 \$1,725 as set forth in Exhibit S-14, Schedule ENZ-5. Staff concludes that because Officers of  
6 the Company owned the building, the interior improvements were the responsibility of the  
7 landlord. Staff did not appear to be familiar with normal commercial lease terms and conditions  
8 that include the provision for tenants to pay for leasehold improvements. (TR 553). Exhibit A-  
9 19, which was also provided to Staff as Data Response EZ5-25, clearly establishes the  
10 Company's obligation to fund the subject improvements. (TR 570) Those improvements should  
11 be capitalized as set forth on Attachment 1.

## 12 **EXPENSE ISSUES**

13 Staff made over \$111,000 of adjustments to this Company that had \$483,000 in  
14 Operating and Maintenance Expenses. That is nearly a 23 percent adjustment--on its face an  
15 indication of Staff's extreme bias. Staff made adjustments to 11 of the Company's operating  
16 accounts.

17 The Company objects to virtually all of the adjustments shown on Attachment II. The  
18 only acceptable adjustments are the elimination of \$14,400 truck lease expenses related to the  
19 trucks capitalized by Staff and the reclassification of \$1,089 of truck repair expense to  
20 transportation expense. Attachment II sorts Staff's proposed 11 adjustments into four categories:  
21 "improper" or "imprudent" expenses, incorrect accounting, known and measurable changes and  
22 normalizations. The "improper" or "imprudent" expense category is \$84,618 or 76% of the  
23 \$111,567 total expense disallowance. The adjustments in this category represent judgment calls  
24 by the Staff with respect to expenses necessary for Pineview to provide quality service to its



1 customers at reasonable costs. As discussed below, these expenses are reasonable and necessary  
2 and were incurred by the Company based on informed decisions by management. It would be  
3 wrong for the Commission to allow Staff's whimsical and uninformed views with respect to  
4 prudent expenses to override the judgment of Company management.

5 The First and Second proposed adjustments were to the Salary and Wages Account in the  
6 amount of \$47,015, and the related adjustments for Pensions and Benefits of \$7,557. Staff  
7 elected to disallow all expenses for three employees, the President, Secretary, and a consultant.  
8 The only logical explanation is that these individuals were owners of the Company or family,  
9 and that the Company did not have permanent office space for these employees. (TR 131)

10 The Staff was provided with detailed job descriptions of these employees. (Exhibit A-6,  
11 Exhibit RM-2) Although Staff admits that the functions may be legitimate functions for  
12 Company employees, they refuse to acknowledge this expense. This is arbitrary by definition.  
13 (TR 436-446, 549-552)

14 The Third Staff adjustment is a simple error. The Staff allowed 11 months of Purchase  
15 Power Expense, not 12 months. When data was provided to the Staff for the full year by way of  
16 Data Responses and at the hearing, they merely disregarded that data. Again, this is arbitrary  
17 and incorrect. The Purchase Power Expense needs to be increased by \$3,441 to the booked  
18 amount shown on Exhibit A-1, Schedule C-1, and as clearly demonstrated on Exhibit S-22. (TR  
19 454-456)

20 The Fourth Staff Adjustment was to the Repair and Maintenance Account. That  
21 adjustment included \$1,089 as the reclassification of the repair expenses associated with the  
22 pickups from Repairs and Supplies to Transportation Expense. As stated, the Company believes  
23 that is appropriate, given the Staff treatment of the pickup lease/capital expense. However, the  
24 repair expenses of \$5,578 for the backhoe were excluded because Ms. Zetzrijan believed the

1 "580 SL" was a Mercedes Benz. She did acknowledge that if the equipment was leased the  
2 repair expense would be a legitimate expense. (TR 458) The backhoe cost should be included as  
3 either a lease expense, or capital addition, but in either case the Repair and Maintenance  
4 associated with that equipment must be included. (TR 89-91)

5 The Fifth disallowance by Staff was for employee uniform expenses. Despite a full  
6 explanation of the need for those uniforms and how the Company changed from a uniform  
7 service to employee maintained uniforms, the Staff disallow \$1,152 in expenses. This may be  
8 appropriate, but only if the Company's requested \$720 per year for uniform replacement cost is  
9 allowed. (TR 167, 201) This is again an unreasonable disallowance.

10 The Company agrees with the Water Testing a pro forma Staff is proposing in adjustment  
11 Six in the amount of \$3,157, which is in lieu of the Company's Test Year book expense.

12 As part of the Staff proposed Seventh adjustment they also disallowed all of Mr. Sutter's  
13 out-of-pocket expenses in the amount of \$5,060 and fuel reimbursement of \$480. This is wrong.  
14 These expenses were incurred by the employee in performing his duties as the President of the  
15 Company, and should be allowed, with or without his receiving a salary.

16 The Eighth adjustment is based upon the infamous "commingling" allegation. Company  
17 invoices with the Mercon, Inc. name on the invoice, totaling \$311, were disallowed. Again, this  
18 was fully explained by Mr. McDonald, both the billing error by the vendors, and the use of the  
19 purchased items by the Company. (TR 192-194) Staff refuses to acknowledge this reality.

20 The Ninth adjustment is the disallowance for the telephone landline lines expense in the  
21 amount of \$1,994 as demonstrated in Exhibit A-13. Staff has failed to demonstrate that the  
22 landlines are no longer used, or that this adjustment is reasonable. Staff was clearly confused by  
23 the Company's changing its telephone provider. (TR 91, 199)

1 Finally, the Staff's proposed \$8,347 reduction in bad debt expense duplicates the  
2 normalization adjustment made by the Company in its filing. As shown on Attachment III, the  
3 filing, as adjusted, includes \$3,706 of bad debt expense rather than the actual amount recorded  
4 on the books during the test year of \$11,131. The Staff adjustment further reduces bad debt  
5 expense to a credit (or bad debt income) of \$4,641 – a totally illogical result. Staff's adjustment  
6 in this regard is well documented on Staff schedules ENZ-11 and ENZ-21. The lunchtime,  
7 fabricated Staff Exhibit S-16 does not reconcile this obvious error. There is nothing in Staff's  
8 testimony or exhibits to support the calculations shown on Exhibit S-16. A simple admission by  
9 Staff that it made an error is all that is necessary to resolve this issue.

10 In summary, significant increases in Staff's recommended expense levels and  
11 corresponding revenue requirements are supportable and necessary. Attachment IV shows  
12 revised income statements that reflect more accurately test year expenses and required revenue  
13 increases. Alternative One, under column c, assumes the capitalization of the backhoe,  
14 consistent with Staff's treatment for the trucks. Alternative Two, under column e, treats the  
15 backhoe as a leased piece of equipment – consistent with the Company's test year accounting.  
16 Both alternatives provide operating income levels needed to meet reasonable debt service  
17 coverage requirements. Under Alternative One, an increase in revenues of \$93,781 or 17.42% is  
18 needed. Under Alternative Two, the increase is \$106,781 or 19.84%.

## 19 **RATE OF RETURN**

20 The Company believes strongly that the full Financing Application request of \$730,977  
21 should be approved by the Commission, as well as the proposed Repair and Maintenance  
22 Expenses as filed in these dockets (see Expense Issues above). To obtain the loan the Company  
23 has requested the rate levels proposed in this Application. Those revenues are necessary to meet  
24 the Arizona Water Infrastructure Authority ("WIFA") required coverage ratios for that loan.

1 Staff has proposed a DCF/CAPM methodology to support their recommended rate of  
2 return. The Company adamantly believes that that type of analysis is not an appropriate measure  
3 for this Company. The Company did not question the Staff's computations in their analysis. It  
4 does however, question the "comparability" of the sample companies used in the Staff's analysis.  
5 It was clearly demonstrated that the six sample companies are in no way similar to this Company  
6 when comparing revenues, number of customers, diversification service area, access to equity  
7 and debt markets, earnings, or, financial analysts' tracking. (TR 305-312) Staff argued in  
8 response, that the Commission confirmed the methodology and its utilization for the Arizona  
9 Water Company case as discussed in Exhibit S-24. Again, Arizona Water is huge when  
10 compared to this Company, and although it may be similar to the sample companies, it is clearly  
11 not similar to Pineview. (TR 312-318)

12 The Company used the most basic methodology of determining the revenue requirement  
13 and established the reasonableness of the return. Staff agrees the Company needs the ability to  
14 attract needed capital at a reasonable cost. (TR 303). Using the WIFA coverage requirements,  
15 the required revenue was determined. Only thereafter were the resultant return on equity and  
16 rate of return computed. (TR 24-31) Mr. Neidlinger did not do a study on the Return on Equity  
17 because the Company is not seeking equity funds. He did the type of analysis that a lender, in  
18 fact the specific lender-WIFA, would do. The results are the results. He then merely "backed  
19 into" the traditional way of stating the required rate of return using the needed revenues .

20 For the Company to be able to finance the needed plant additions, Mr. Neidlinger  
21 testified that the Company needs a DSC of approximately 1.5, which requires an Operating  
22 Income of approximately \$76,000. (Exhibit A-7) That is approximately \$36,000 more than the  
23 Staff's recommended revenue levels based upon its adjusted Operating Expenses. To obtain that  
24

1 actual coverage, the Company would also need to recover approximately \$75,000 of the  
2 Operation and Maintenance Expenses disallowed by the Staff. (See Expense Issues above)

3 Staff argues that the Company needs an additional production well in lieu of the second  
4 million gallons of storage. (See Financing Application below). The cost of the additional well is  
5 roughly equivalent to the cost of upsizing the storage tank. (See Well Estimate details in  
6 Attachment B to Exhibit A-2) Therefore, the \$100,000 removed by Staff is clearly needed.  
7 Given the Company's established capital needs of \$730,000; the Company's revenue requirement  
8 is then mathematically determined. The only way to obtain the WIFA loan is to demonstrate the  
9 required coverages. To obtain those coverages, the Company needs the requested revenue levels.  
10 Those coverages are not attainable with the revenues resulting from the Staff's rate of return  
11 recommendation.

## 12 **FINANCING APPLICATION**

13 The Company faces a critical juncture in its operations. It can become a larger, more  
14 effective Company, or can limp along as it has during its history to date. Mr. McDonald testified  
15 as to the many benefits to the Company and its customers from having this larger tank. They  
16 include: (1) allowing gravity feed water pressure to the entire system, especially during the  
17 service areas many electrical outages, (2) providing the resultant increased reliability of service,  
18 (3) lowering the operating costs by using off-hour pumping costs to fill the storage tank, (4)  
19 having additional storage to serve the fire flow needs of the entire service area and beyond for  
20 this community surrounded by Forest Service and grass lands, and (5) offering the substantial  
21 savings in construction cost for the two million gallon tank. (TR 72-82)

22 Staff opines that it is more appropriate to drill an additional well instead of adding  
23 storage. (TR 348, 371) The Company believes that its years of operating experience (including  
24 the recent curtailments cited at by Mr. McDonald at TR 79) provide the Company with a sound

1 historical and factual basis to determine the plant needs for the Company, as opposed to the  
2 Staff's theoretical analysis of the system. Even if the Staff is correct in its recommendation  
3 regarding an additional well instead of the larger two million gallon tank, the Commission  
4 should authorize the full Financing Application because the cost of those alternatives is nearly  
5 the same.

6 The cost differential between the one and two million gallon tank is substantial, although  
7 not as much as the Staff purports. Most of the cost of a tank is in the floor and ceiling. Raising  
8 the sidewall construction would be approximately \$ 100,000. (TR76-78). The Company is of the  
9 opinion that it would be imprudent to build a one million gallon tank on this site at this time.  
10 Staff 's recommendation disallows the ability to up-size the tank, and results in a \$153,400  
11 shortfall in the financing funds available.

12 Further, the ability to construct this two million gallon tank is a one-time opportunity.  
13 Due to the fortuitous addition of a subdivision to its service area, the Company was able to  
14 acquire a strategic well site at the highest point in its service area. That site has a "footprint"  
15 large enough for a single tank only. The other adjacent property is owned by the U.S. Forest  
16 Service, and cannot be acquired for the needed purpose. There is no other similar site in the  
17 Company's service area (TR 81), and a one million gallon tank on that site cannot be "retrofit" to  
18 accommodate additional storage. Finally, the Company has WIFA approval for the cost of the  
19 two million gallon tank. If that shortfall in debt approval were funded by equity, it would result  
20 in higher permanent expenses to be recovered from the ratepayers than if funded through lower  
21 cost WIFA funds.

22 Any one of these reasons would be a sound basis to justify building the two million  
23 gallon tank. With all of them, it is the proverbial "no-brainer". It is essential that the Company  
24 construct a two million gallon tank at that site, not a one million gallon tank as the Staff

1 recommends. The Commission should allow financing of the two million gallon tank for the  
2 benefit of all.

### 3 **RATE DESIGN**

4 The Company provided evidence of the errors in the Staffs Rate Design (TR 37-  
5 40)(Exhibit A-5). Staff rejected those corrections. The Company will not pursue the issue, but  
6 does request that the Commission adjust the Staff's proposed first-tier range so that the  
7 customers do not receive a rate reduction as a result of a revenue increase. The Company's  
8 proposed first-tier varies by meter size to recognize the differences in customer classes, and  
9 sends the appropriate pricing signals to the customers. (TR 48-54) The Company's rate design  
10 should be adopted.

### 11 **CONCLUSION**

12 The Company has made substantial gains in many ways since the 1996 Rate Case. It is  
13 added over 40 percent to its Rate Base, increased customers by nearly 30 percent, doubled its  
14 employees, eliminated all Arizona Department of Environmental Quality violations, and reduced  
15 customer complaints.

16 This was obviously done with the assistance of the Commission, but also includes  
17 attentive management. The Company's operations are dramatically better than prior to the last  
18 Rate Case. However, the operating stress is not gone. This is primarily due to the desperate  
19 need for additional production/storage facilities.

20 In addition, it has been over eight years since the Company has requested and received an  
21 increase in rates. That is eight years of inflation. Eight years in which the Company put its  
22 assets towards improving the Company. Fire flow has been improved through the upsizing and  
23 replacement of old lines and the addition of several fire hydrants. However, after nine plus years  
24 of drought, the effects of the bark beetle, and the increasing population of the White Mountains,

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1 fire flow protection is still in desperate need of improvement. The Company sincerely believes  
2 the project as proposed is the best, most economical, responsible response to the needs of its  
3 current and future ratepayers.

4 The Company is asking the Commission for two things in this case; revenues that  
5 acknowledge the substantial increase in the Company's operating expenses necessary to serve its  
6 customers, and (2) a return that will provide revenues that will produce the coverages necessary  
7 to fund the much-needed plant additions.

8 To meet these needs, the Company has asked for an Operating Income based upon the  
9 WIFA mandated coverages. Few, if any, small companies have sufficient Rate Base to support  
10 returns necessary for long-term financing. This may be because of the age of the system, prior  
11 Orders that depreciated the Rate Base too rapidly, or Advances or Contributions that reduced the  
12 Rate Base more quickly than any equity additions. Any or all of these phenomenon affect most  
13 small companies. Simultaneously, small companies face new capital needs whether caused by  
14 growth, or ADEQ mandated regulations for storage or arsenic removal. The new capital  
15 requirements for small companies are large and real. The combination of relatively small Rate  
16 Base and financing needs put traditional ratemaking techniques to the test. The methods of  
17 determining the cost of equity utilized for large companies are simply not applicable for small  
18 companies with small Rate Bases and large capital demands.

19 The Company fits into the above-described reality. For that reason, the Company has  
20 proposed a much-needed capital program with, among other things, a two million gallon storage  
21 tank, with total capital program of \$730,000. With its existing Rate Base, it would be very  
22 difficult for the Staff or Commission to support the return on equity levels that would permit the  
23 needed financing, especially given the recent returns in the equity market.



1 Recognizing this dilemma, the Company submits it is reasonable --no, it is essential-- for  
2 the Commission to "think outside the box" and approve rates designed to support the needed  
3 debt. The Company recognizes the requirement that the Commission must establish a Fair Value  
4 Rate Base and set a Fair Rate of Return thereon as part of its Constitutional charge. However,  
5 the rationale can be, as it has been in numerous previous small company rate applications, to  
6 determine the revenue level on one basis,( i.e. coverages, cash flow, or operating margin) and  
7 state it in traditional Rate Base/Rate of Return terms. This has not, and will not, be unique to this  
8 Company or Application. We submit that the Commission will need to recognize this even more  
9 in the future as the arsenic treatment capital demands soon hit the companies it regulates.

10 Pineview, and its customers, are fortunate that arsenic is not an issue for this Company.  
11 However, water quality, quantity, reliability, pressure and fire flows are. These are equally  
12 legitimate concerns of the Company. The Company is proposing a phased construction solution  
13 to address those issues. Consistent with the agreed-upon need for additional storage, the  
14 Company proposes to first build a two million gallon storage tank. Staff believes it should build  
15 a one million gallon tank, plus drill an additional well. It is submitted that engineers can debate  
16 the sequence of plant additions forever, however the evidence is clear that both are needed.

17 Due to the unique tank site available to the Company at this time, the Company believes  
18 building a two million gallon tank is the only prudent first step. Subsequent wells will obviously  
19 be drilled on the Company's new well site as a subsequent phase. The Company needs to fund  
20 and build this two million gallon tank now. That can only be done with the Commission's help  
21 by granting the Company's legitimate operating expenses as set forth in this case, and  
22 authorizing an Operating Income that will produce the coverages for the \$730,000 loan.

1 We urge the Commission to adopt the Company's expenses and return request that will  
2 permit the Company to operate in a fashion that its customers will find acceptable and  
3 appreciate, and that will be cited with approval by the Commission and all regulators.

4 WHEREFORE, the Company respectfully requests that the Commission issue an order  
5 granting the requested relief and such other relief as the Commission may deem appropriate.

6 Respectfully submitted this 8<sup>th</sup> day of April 2005.

7 SALLQUIST & DRUMMOND, P.C.

8  
9 By  \_\_\_\_\_

10 Richard L. Sallquist  
11 4500 S. Lakeshore Drive, Suite 339  
12 Tempe, AZ 85282  
13 Attorneys for Pineview Water Company, Inc.  
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24

1  
2 Original and fifteen copies of the foregoing  
3 filed this 8 day of April 2005,  
4 with:

5 Docket Control  
6 Arizona Corporation Commission  
7 1200 West Washington  
8 Phoenix, Arizona 85007

9 Copies of the foregoing filed this 8  
10 day of April 2005 to:

11 Hearing Division  
12 Arizona Corporation Commission  
13 1200 West Washington  
14 Phoenix, Arizona 85007

15 Legal Division  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007

19 Utilities Division  
20 Arizona Corporation Commission  
21 1200 West Washington  
22 Phoenix, Arizona 85007

23 Dan E. Simpson  
24 1021 White Tail Drive  
Showlow, Arizona 85901

Thomas R. Cooper  
8578 N. Ventura Ave.  
Ventura, California 93001

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**PINEVIEW WATER COMPANY, INC.**  
**Rate Base Computation**

	a	b	c	d	e	f	g	h	i
	Staff as	Staff Conceded	Well Site	Leasehold Improvements	Corrected Pick-up	Retire Old	Alternative One	Capitalize New	Alternative Two
	Adjusted Exhibit S-14 Schedule ENZ-3	ENZ-10	ENZ-5	ENZ-5 (1)	Cost (2)	Backhoe Exhibit A-20 (3)	Adjusted Rate Base	Backhoe (4)	Adjusted Rate Base
Plant in Service	\$ 2,101,392		\$ 50,750	\$ 1,725	\$ 6,631	\$ (37,926)	\$ 2,122,572	\$ 89,257	\$ 2,211,829
Less: Accumulated Depreciation	\$ 1,091,936		\$ -	\$ 86	\$ -	\$ (15,018)	\$ 1,077,004	\$ 24,546	\$ 1,101,550
Net Plant in Service	\$ 1,009,456		\$ 50,750	\$ 1,639	\$ 6,631	\$ (22,908)	\$ 1,045,568	\$ 64,711	\$ 1,110,279
Advances in /Aid of construction (AIAC)	\$ (243,473)						\$ (243,473)		\$ (243,473)
Contributions in Aid of Construction (CIAC)	\$ (15,334)						\$ (15,334)		\$ (15,334)
Less: Accumulated Amortizations	\$ 622						\$ 622		\$ 622
Net CIAC	\$ (14,712)						\$ (14,712)		\$ (14,712)
Total Advances and Contributions	\$ (258,185)						\$ (258,185)		\$ (258,185)
Customer Deposits	\$ (7,769)						\$ (7,769)		\$ (7,769)
Meter Advances	\$ (88,392)	\$ 15,978					\$ (72,414)		\$ (72,414)
ADD:									
Working Capital	\$ 6,983						\$ 6,983		\$ 6,983
Total Rate Base	\$ 662,093	\$ 15,978	\$ 50,750	\$ 1,639	\$ 6,631	\$ (22,908)	\$ 714,183	\$ 64,711	\$ 778,894

- (1) \$1,725 X 5.0% = \$89  
(2) )(\$27,720 + \$27,416= \$55,436) - \$48,805 = \$6,631  
(3) \$37,926 X 4.95% X 8 years = \$15,018  
(4) See attached

**PINEVIEW WATER COMPANY, INC.**  
**1998 Case Model 580SL Cost**

Item	a	b
	Amount	Reference
Original Cost	\$ 89,256.90	Exhibit A-19
In-service date	12/1/1998	Exhibit A-19
Service Life, Account 345	20	Exhibit S-13, Page 29
Annual Depreciation Rate	5%	
Annual Depreciation Amount	\$ 4,462.85	
Accumulated Depreciation		
1998 (Half-Year Convention)	\$ 2,231.42	
1999	\$ 4,462.85	
2000	\$ 4,462.85	
2001	\$ 4,462.85	
2002	\$ 4,462.85	
2003	\$ 4,462.85	
Total Accumulated Depreciation	\$ 24,545.65	
Net Rate Base	\$ 64,711.25	
Debit Account 345 Power Operated Equipment	\$ 89,256.90	
Credit Account 108 Accumulated Depreciation	\$ 24,545.65	

# PINEVIEW WATER COMPANY, INC.

## Staff Adjustments

DESCRIPTION	a	b	c	d	e
	TOTAL ADJUST. (1)	"IMPROPER" OR "IMPRUDENT" EXPENSES	INCORRECT ACCOUNTING	KNOWN & MEASURABLE CHANGES	NORM.
ADJUSTMENT NO. 1:					
Salaries & Wages	-\$47,015	-\$47,015			
ADJUSTMENT NO. 2:					
Employee Pensions & Benefits	-\$7,557	-\$7,557			
ADJUSTMENT NO. 3:					
Purchased Power	-\$3,441		-\$3,441		
ADJUSTMENT NO. 4:					
Repairs & Supplies:					
Truck Repairs	-\$1,089		-\$1,089		
Roto Rooter Charges	-350		-350		
Repairs to Heavy Equipment	-5,578	-5,578			
Total Adjustment No. 4	-\$7,017	-\$5,578	-\$1,439	\$0	\$0
ADJUSTMENT NO. 5:					
Office Supplies & Expense - Uniforms	-\$1,152			-\$1,152	
ADJUSTMENT NO. 6:					
Contractual Services - Water Testing	\$3,157			\$3,157	
ADJUSTMENT NO. 7:					
Rent Expense;					
Lease Expense - Backhoe	-\$18,000	-\$18,000			
Lease Expense - Trucks	-14,400		-\$14,400		
Checks Issued to Henry Sutter	-5,068	-5,068			
Total Adjustment No. 7	-\$37,468	-\$23,068	-\$14,400	\$0	\$0
TRANSPORTATION EXPENSE:					
Truck Repairs	\$1,089		1,089		
Fuel Expense - Henry Sutter	-480	-480			
Fuel Expense - Unsubstantiated	-79	-79			
Fuel Expense - Ford Truck	-530	-530			
Total Transportation Expense	\$0	-\$1,089	\$1,089	\$0	\$0
ADJUSTMENT NO. 8:					
Postage & Freight - Payments to Mercon	-\$311	-\$311			
ADJUSTMENT NO. 9:					
Telephone Expense - Land Lines	-\$1,994			-\$1,994	
ADJUSTMENT NO. 10:					
Small Tools - Touchreader	-\$422		-\$422		
ADJUSTMENT NO. 11:					
Bad Debt Expense	-\$8,347				-8,347
TOTAL OPER. & MAINT. EXPENSE	-\$111,567	-\$84,618	-\$18,613	\$11	-\$8,347

**NOTE:**

Staff Schedules ENZ-11 & ENZ-12

Staff Adjustments

## ATTACHMENT II

**PINEVIEW WATER COMPANY, INC**  
**Bad Debt Expense Adjustment**

DESCRIPTION	AMOUNT
	a
Test Year Bad Debt Expense - Per Books (1)	\$11,131
Company Adjustment (2)	-7,425
Adjusted Bad Debt Expense - Company Filing (3)	\$3,706
Staff Adjustment (4)	-8,347
Bad Debt Expense (Income) Per Staff Report	-\$4,641

NOTES:

- (1) Company Exhibit A-16 - Workpapers  
Workpaper 00001
- (2) Workpaper 000017 & Company Exhibit  
A-1, Schedule C-2
- (3) Included in \$72,950 General & Administrative  
Expense shown in Exhibit A-1, Schedule C-1
- (4) Staff Schedule ENZ-11, Line 24. Deducted  
from \$72,950, Line 27, captioned as  
"Miscellaneous Expense". See Schedule ENZ-21

**PINEVIEW WATER COMPANY**  
**Income Statement**

	a	b	c	d	e
	Staff Recommended Exhibit S-14 Schedule ENZ-11	Company Adjustments	Alternative One Company Request w/ Backhoe Capitalized	With Backhoe Expensed	Alternative Two Company Request w/ Backhoe Expensed
Total Operating Revenues	\$ 538,219	\$ 93,781	\$ 632,000	\$ 106,781	\$ 645,000
Salaries and Wages	\$ 184,280	\$ 47,015	\$ 231,295		\$ 231,295
Employee Pensions and Benefits	\$ 29,614	\$ 7,557	\$ 37,171		\$ 37,171
Purchased Power	\$ 39,512	\$ 3,441	\$ 42,953		\$ 42,953
Repairs and Maintenance	\$ 22,226	\$ 5,578	\$ 27,804		\$ 27,804
Office Supplies and Expense	\$ (1,152)	\$ 520	\$ (632)		\$ (632)
Rent	\$ 14,567		\$ 14,567	\$ 18,000	\$ 32,567
Materials and Supplies	\$ 4,120		\$ 4,120		\$ 4,120
Postage and Freight	\$ (311)	\$ 311	\$ -		\$ -
Telephone Expenses	\$ (1,994)	\$ 1,994	\$ -		\$ -
Small Tools	\$ (422)		\$ (422)		\$ (422)
Bad Debt Expense	\$ (8,347)	\$ 8,347	\$ -		\$ -
Miscellaneous Expenses	\$ 72,950		\$ 72,950		\$ 72,950
Total Operating and Maintenance	\$ 371,452	\$ 74,763	\$ 446,215	\$ 18,000	\$ 464,215
Depreciation (1)	\$ 83,046	\$ 2,665	\$ 85,711	\$ (4,463)	\$ 81,248
Property Taxes	\$ 28,167		\$ 28,167		\$ 28,167
Federal and State Income Taxes (2)	\$ 7,883	\$ 4,117	\$ 12,000	\$ -	\$ 12,000
Total Operating Expenses	\$ 490,548	\$ 81,545	\$ 572,093	\$ 13,537	\$ 585,630
Operating Income (3)	\$ 47,671		\$ 59,907		\$ 59,370
(1)					
Leasehold Improvements	\$ 89				
New Backhoe	\$ 4,463				
1996 Backhoe	\$ (1,887)				
	\$ 2,665				

(2) Using Staff's 20% Rate per Schedule ENZ-1

(3) \$60,000 +/- Operating Income necessary to reach target coverages